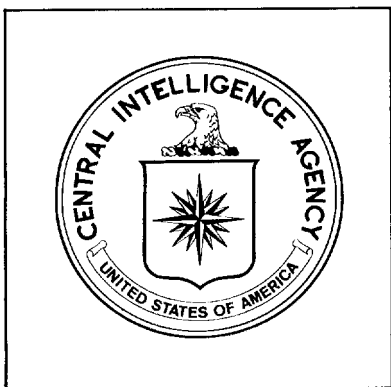


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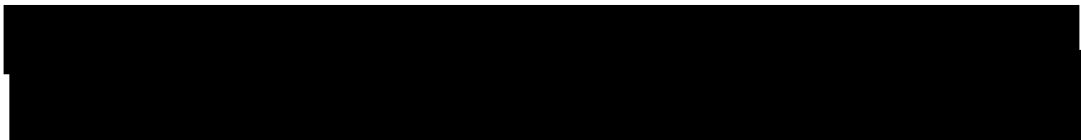
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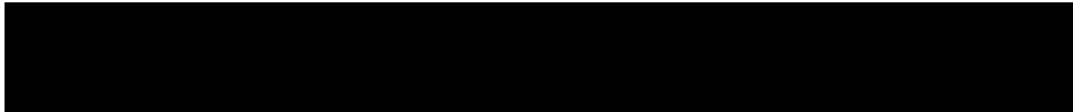
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Indonesia: On the Road with Suharto
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President Suharto set off on June 26 for a two-week tour that will take him to five world capitals, including Washington. Suharto's trip, which will also take him to Iran, Yugoslavia, Canada, and Japan, is designed to burnish his international image as a Third World statesman and, more mundanely, to explore the prospects for increased economic and military aid. Although the trip was planned well in advance of the communist victories in Indochina, Suharto can be expected to present Indonesia's ideas about the future of Southeast Asia and seek support for Jakarta's regional leadership aspirations.

Suharto's first stop is a five-day official visit to Iran, reciprocating the Shah's visit to Jakarta in 1974. Indonesia hopes for greater development assistance from Iran; Tehran has already agreed to finance a fertilizer plant but, thus far, has made no general commitments for further aid. Nevertheless, Iran has been more forthcoming on economic aid than other Middle East oil-rich states.

The original itinerary scheduled state visits to Saudi Arabia and Egypt, after Iran. The Saudi trip was postponed after the death of King Faisal, and the Cairo stop was scrubbed soon after. Jakarta is very unhappy that the Arab portion of the trip fell through. Suharto had counted on successful state visits there to help counteract domestic and foreign criticism that he is anti-Muslim. He had intended to make the pilgrimage to Mecca during the visit to Saudi Arabia, fulfilling a major Muslim religious obligation. His advisers believe that doubts about Suharto's Muslim credentials are an important reason for Arab unwillingness to provide economic aid to Indonesia.

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From Iran, Suharto will go to Yugoslavia (June 30-July 2), where his primary objective is to refurbish Indonesia's standing as a nonaligned nation. The President's advisers hope that a well-publicized visit will impart to Suharto some of President Tito's aura of elder statesman of the nonaligned movement. Indonesia has been perturbed by the allegations of some nonaligned leaders that Jakarta is now part of the US sphere of influence. Suharto believes that these charges have diluted Jakarta's ability to exercise a moderating influence in recent nonaligned conferences and given the radical states more power.

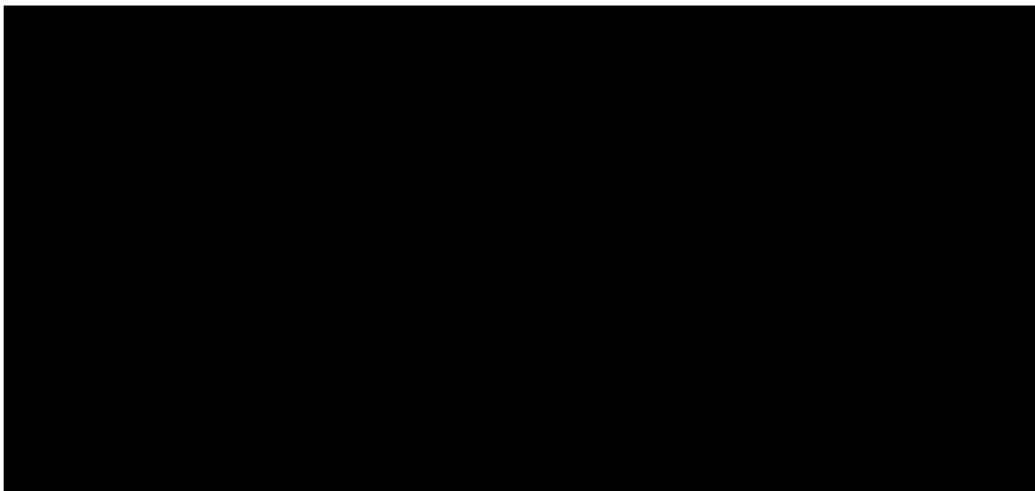
A visit to Ottawa (July 2-5) is the last state visit of the present tour. Suharto will be returning Prime Minister Trudeau's visit to Jakarta as well as discussing Canada's economic assistance projects.

Suharto will stop unofficially in Washington on July 5 for one day. He wants to talk with President Ford and top US officials about increased US military assistance and will argue that recent events in Indochina pose new security threats to Indonesia that require substantial improvements in Indonesia's armed forces. Suharto is also looking for US support for Jakarta's desires to enhance its regional leadership role in Southeast Asia, as well as some indication of the future US role in the area. His economic advisers will insist that, despite increased income from oil, Indonesia remains a poor country in need of substantial US economic assistance.

After leaving Washington, Suharto will pay an unofficial visit to Japan (July 6-8) en route home. He will be discussing future Japanese economic assistance for Indonesia, in particular Tokyo's willingness to finance the Asahan hydroelectric and aluminum smelting project in North Sumatra. This project has been under discussion for some

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time, and Indonesia views progress on the negotiations as a barometer of Indonesian-Japanese relations in general. Jakarta believes that Japan benefits significantly from imports of Indonesian raw materials and should be more forthcoming on assistance to Indonesia's major development projects.
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China and Japan Weigh Oil Agreement

25X1A

Sino-Japanese negotiations on a long-term oil agreement may be completed by year's end. The dependability of oil revenues became an urgent issue to Peking when Japan failed to take delivery of almost a fifth of the 100,000 barrels per day of crude contracted for in 1974. With the fifth five year plan (1976-80) now being drafted, Chinese planners need to know how much oil income can be counted on to finance purchases of Western machinery and equipment.

Japanese purchases of Chinese crude, which began with 20,000 barrels per day in 1973, have been handled on a case by case basis by the Council of Petroleum Importers and the International Oil Company, two Japanese organizations established expressly for that purpose. Chinese disappointment with sales in 1974 led to a search for broader channels to the Japanese market. In February, Inayama Yoshihiro, president of the Japan-China Trade Association, agreed to assume overall responsibility for a plan to guarantee sales to Japan over a number of years. Peking reportedly is ready to sell "tens of millions" of tons a year through 1980, while Japan is willing to reduce the share of imports obtained from the Near East and Indonesia to make room for Chinese crude. Guaranteed long-term contracts do not, however, assure the Chinese that Japanese companies will actually take delivery of all oil under contract. This will be determined by market conditions at the time.

Back in Japan, Inayama consulted with the Ministry of International Trade and Industry and with businessmen. Earlier this month, they tentatively decided to increase purchases of Chinese crude by about 160,000 barrels per day

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each year to 1 million barrels per day in 1980. This schedule no doubt would please Peking; it closely matches our estimates of Chinese ability to produce and transport oil for export. The businessmen asked for more time to consider the question of price. Thus, a final proposal to the Chinese is not expected until July. Inayama anticipates signing an agreement with China in November.

The Japanese want to diversify their sources of crude in order to reduce vulnerability to another Arab oil cutoff and to enhance their bargaining power over price with Indonesia, whose crude is similar to China's. Furthermore, buying more oil from China would help Peking reduce its sizable trade deficit with Japan. This deficit amounted to \$840 million in 1974, compared with the \$630 million that will be earned from delivery of 160,000 barrels per day of crude to Japan in 1975. The 160,000 barrels per day will include 20,000 barrels per day the Japanese contracted for but did not accept in 1974.

The Chinese, for their part, are beginning to recognize that Japan is the only major market immediately on the horizon and are willing to soften prices. Chinese oil delivered in the first half of 1975 was reduced 70 cents a barrel from last year's price of \$12.80. Peking also agreed to quote the sales in dollars so that Japan will not repeat the 1974 experience of paying an effective price of about \$14 (after devaluations of the yen relative to the Chinese yuan were taken into account). (SECRET NO FOREIGN DISSEM)

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Burma: Student and Worker Discontent
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25X1A

Student and labor protests in Burma earlier this month marked the third time within a year that there has been significant agitation against the Ne Win regime. Unlike the labor strikes a year ago and the student-initiated disorders last December, the government was able to restore calm this time without violence after a week of unrest. Although the government remains firmly in control, the recurrent protests indicate that President Ne Win and his colleagues have done little to alleviate worsening economic conditions, the root cause of discontent, and that further outbursts by disaffected groups are likely.

The trouble this month started with worker sitdown strikes over spiraling prices and frozen wages, but students quickly moved in to stage demonstrations calling for the overthrow of the government. The students and workers made more of an effort to work together than during past protests, but because their objectives were different, the government had little trouble preventing any real coordination.

The government also made a more concerted effort to use restraint this time than it had during the disorders last year. High-ranking officials were sent to meet with both student and worker groups to explain government policies. The meetings with students were quickly called off after officials met a hostile reception, and to defuse the situation, the government used the now-familiar tactic of closing the universities and sending the students home. The schools had only been open for a few weeks after being closed during the disorders last December. The government did make more than

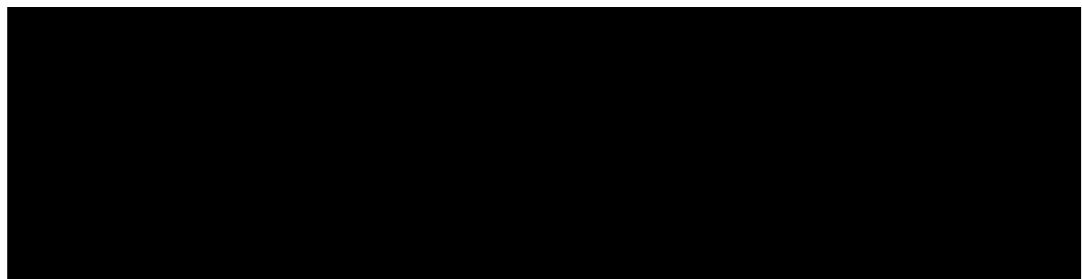
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200 arrests, however, nearly half of which involved high school students; only about 35 were university students.

The renewal of demonstrations so soon after the government's use of troops and widespread arrests to halt earlier student protests reflects the depth of student disaffection from the regime.

The government sees the workers as a greater threat to stability and has treated them more cautiously. It has promised to meet some of their economic demands by increasing rice supplies and overtime pay. At the same time, however, the authorities reportedly are identifying and arresting strike leaders. For the most part, the government has used only stopgap measures to appease the workers since labor unrest first developed during the spring of 1974. Discontent has thus manifested itself periodically during the past year and will undoubtedly persist unless or until the government deals more effectively with the country's worsening economic problems.

Despite the prospect of further unrest, the regime does not appear to be seriously threatened at this time. The army continues to monopolize power, and it has shown no sign of disloyalty to Ne Win and his colleagues. (SECRET NO FOREIGN DISSEM)



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Malaysian Party Elections
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Prime Minister Razak scored a strong personal victory in the party leadership elections at the annual congress of his United Malays National Organization (UMNO). He and Deputy Prime Minister Hussein were unopposed as party president and deputy president. All of Razak's party loyalists were successful in their bids for various party posts. A continuation of Razak's moderate leadership seems assured through the next national elections in 1979, after which he may retire.

The strongest reflection of Razak's control appeared in the contests for the party's third echelon of leadership--the vice presidencies. Razak candidates captured all three elected slots, and each of these individuals now has some potential for becoming prime minister, because Deputy Prime Minister Hussein's health problems appear to rule out his succeeding Razak.

The surprise defeat of Razak's principal political rival, UMNO youth organization leader Harun, was unquestionably gratifying to the Prime Minister. Harun had been considered front-runner for one of the party's vice presidencies. His Malay chauvinism had on several occasions embarrassed the Razak government, which is committed to a multiracial society. Harun had also been tainted by several scandals, and a strong anti-corruption speech by Hussein may have influenced undecided delegates not to vote for him.

As the dominant force in the nine-party National Front that governs Malaysia, UMNO determines the course of Malaysian politics. The leadership elections were closely watched by the non-Malay majority in Malaysia as indicators of the government's communal policy. Although the chauvinistic Harun was

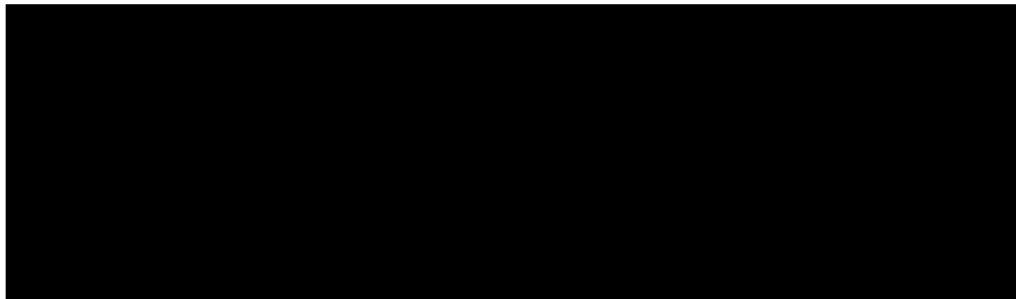
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defeated, other advocates of Malay political supremacy were elected. In particular, the election to the party's supreme council of several individuals with strong Islamic orientation indicated a resurgence of the conservative religious group within the party.

The decision of the UMNO congress to reaffirm and accelerate the government's pro-Malay social and economic programs will confirm non-Malay fear that the Razak government is excessively concerned with the Malay sector of the racially diverse population. The government's pledge that non-Malays will not be hurt by efforts to give Malays a larger slice of the Chinese dominated economy will no doubt be greeted with some skepticism. Although Razak has achieved his goal of building a multi-racial coalition government, he clearly has some way to go in convincing non-Malays that his administration is following an evenhanded communal policy. (CONFIDENTIAL)



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